Exelon Generation Company, LLC (Exelon) appreciates the opportunity to comment on resource adequacy in Central and Southern Illinois. In our comments, we address the current state of the market and offer suggestions for consideration as the Illinois Commerce Commission examines potential solutions.

I. Exelon Investment in Illinois Energy and Economy

Exelon, headquartered in Chicago, is Illinois' largest electric generation company. Exelon has substantial interests in wind, hydroelectric, solar and nuclear generation, providing more than twice as much clean electricity as any other company in the U.S. In Illinois, Exelon operates 11 nuclear reactors at six plants, generating reliable power 24/7, sufficient to power more than 10 million homes. The six plants produce over half the electric generation in Illinois and account for 90% of the state's zero carbon electricity. Constellation Energy, Exelon's retail business, offers renewable and energy efficiency products to retail customers. Constellation's Efficiency Made Easy program provides popular options for businesses to implement enterprise-level, automated energy management capabilities, structured to eliminate the potential barrier of a large upfront expense. In total, Exelon directly employs more than 12,000 people in Illinois including about 5,000 at its Illinois generation plants. There are more than 1,700 additional highly technical, direct jobs throughout the state to support refueling outages at Exelon's plants and to perform inspections, equipment upgrades and maintenance during the refueling outages.

Exelon's Clinton Power Station, located in Zone 4 of Midcontinent Independent System Operator, Inc. (MISO), includes one operating unit that began providing power in 1987. The facility has a remaining useful life of 31 years (2046) and a net output of 1,078 MW. The facility serves more than one million homes and employs 717 personnel. Clinton has been slated for premature retirement, but its retirement will be delayed if it is selected pursuant to the zero emission credit procurement process under the Future Energy Jobs Act for the carbon-free energy that it provides. Exelon's interest in resource adequacy in MISO Zone 4 stems from our generation footprint and as our role as a competitive retail energy supplier to residential, commercial and industrial customers. The well-being of Exelon's customers and the broader Illinois economy are dependent on resource adequacy in Zone 4 and throughout the State.

II. The State of Resource Adequacy in MISO Zone 4

The ICC Staff Whitepaper aptly describes the unique status of Zone 4 of the MISO footprint. As the Staff notes, Central/Southern Illinois is unique in that it is the only MISO region that has fully restructured. This means that Central/Southern Illinois relies on the competitive wholesale and retail markets to ensure resource adequacy, while other states within MISO have vertically integrated monopolies that rely on state-mandated revenue and planning to ensure resource adequacy. The existing MISO capacity construct is designed to facilitate short-term bilateral sales by load serving entities (LSEs) within MISO that need capacity to satisfy their obligations for the immediate planning year. The current design lacks an adequate, long-term market price signal that is necessary to incent the retention of existing generation and attract new generation when needed, to promote resource adequacy for customers in Central/Southern Illinois. It is well established that the revenues from the energy and capacity markets are insufficient to cover the costs of generation in the region.[1] MISO itself acknowledges that areas like Southern/Central Illinois do not currently have a mechanism to address long-term resource adequacy.[2]

For residents and businesses in Southern/Central Illinois, the market construct of the single-year planning reserve auction (PRA) structure has resulted in volatility and rate shock. This can be most clearly demonstrated by looking at the results of the Auction Clearing Price (ACP) in the PRA over the past four years. The ACP for the 2017/18 PRA was 1.50/MW-day, versus the 2016/17 ACP of $72/MW-day. These results were of course in stark contrast to the 2015/16 ACP for Zone 4 of $150/ MW-day, as compared to the 2014/15ACP of $16.76/MW-day.

[1] See 2016 MISO IMM State of the Market Report, Figure 4: https://www.potomaceconomics.com/wp-content/uploads/2017/06/2016-SOM_Report_Final_Rev.pdf

[2] In fact, MISO has gone so far as to say that "time is of the essence" in addressing this risk to customers .MISO letter to IL Governor in April 2017 offering to provide assistance to states to meet Res. Adeq. needs

Clearing price uncertainty in MISO has also led to generators within MISO exporting into the PJM footprint. In PJM's capacity auction for delivery year 2017/18, 4,526 MW cleared from external zones,[3] the vast majority of which was from MISO. Delivery years beyond 2017/18 continue to show between approximately 3,800 MW and 4,600 MW of cleared imports into PJM, again, mostly from MISO. The willingness of resources to export to PJM demonstrates the need to explore ways to improve MISO's capacity pricing and address the lack of a long-term price signal.

In addition, there has been limited demand response and energy efficiency participation in Zone 4, likely due to the lack of a transparent price signal, which is crucial to a well-functioning capacity market. For planning year 2017/18, 908 MW[4] of demand resources cleared in Zones 3, 4 and 5, which is only approximately 3% of the total resources cleared in those Zones.

These auction results have prompted complaints with the Federal Energy Regulatory Commission, but have also magnified the ongoing debate concerning reliability and the capacity market construct in Zone 4. Consumer interests have voiced frustration with volatility and the ensuing energy price increases, while power generators have echoed the need for reform.

Though both MISO and the ICC have previously attempted to address the resource adequacy concerns in Zone 4, the problem remains. Exelon commends the ICC Staff for its continued attention to the issue, and its thorough examination of the cause of the problem and creative potential solutions described in the Whitepaper.

III. Potential Solutions

The ICC Staff correctly examines a broad cross-section of solutions to the resource adequacy concern in Zone 4. Any such solution, however, must respect the great lengths to which Illinois has gone to advance its clean energy and environmental goals. Most recently, Governor Rauner's signature on the

[3] See PJM 2017/18 BRA Report: http://www.pjm.com/-/media/markets-ops/rpm/rpm-auction-info/2017-2018-base-residual-auction-report.ashx?la=en

[4] See 2017/18 PRA Results presentation, MISO must aggregate certain Zones for confidentiality purposes: https://www.misoenergy.org/Library/Repository/Meeting%20Material/Stakeholder/RASC/2017/20170510/20170510%20RASC%20Item%2002a%202017-18%20PRA%20Summary.pdf

Future Energy Jobs Act (FEJA) ushered in a new era of clean energy policy in the State of Illinois. With FEJA, the State has greatly increased its investment in energy efficiency, renewable energy (including community solar), and nuclear energy. All of those investments are designed to maintain Illinois' position as the nation's leader in the production of zero-emission energy.

The MISO tariff is intended to be complementary and supportive of such state policies. As the ICC Staff notes, the tariff permits load serving entities to satisfy their capacity obligations through a fixed resource adequacy plan or FRAP. In Illinois, this would most likely involve procurement by the Illinois Power Agency (IPA) pursuant to additional authority delegated by the General Assembly. The General Assembly considered such a proposal in 2016 when it was debating the legislation[5] that would ultimately become FEJA. Under the FRAP proposal, Illinois would have taken greater control of its long-term resource adequacy by directing the IPA to conduct competitive capacity procurements on behalf of Ameren to cover Ameren's Illinois capacity requirements. Those procurements would have been subject to approval by the ICC, with Ameren signing the contracts with selected resources. The proposed FRAP contained detailed provisions addressing how those procurements would be conducted as well as consumer protections, including price benchmarks, that would have ensured the capacity was procured at a price that was cost-effective for consumers. Importantly, after a number of critical short term procurements, it would have directed the IPA to develop long-term capacity procurement plans based on a 20-year planning horizon, and it would have authorized the IPA to award contracts with terms up to 10 years. This would have ensured that Illinois would no longer be subject to the annual one-year cycle of capacity auctions and the volatility that ensues.

Critical among the provisions in the FRAP proposal was the authority granted to the IPA to consider the environmental value provided by capacity from generating units that do not emit pollution such as sulfur dioxide, nitrogen oxide, carbon dioxide or hazardous air pollution like mercury and lead. Under that proposal, the cost of pollution would be considered in determining whether a resource was selected in the procurement, thus ensuring true competition between bids from emitting resources and non-emitting

[5] FEJA, SB 2814, House Amendment #02; removed from the bill via House Amendment #03

resources. Importantly, the formula for determining the value of avoided emissions in the FRAP proposal would have been applied to the bids of any non-emitting source of energy, whether renewable, hydro, demand resources, nuclear or clean coal. It would not, however, have been applied to the bids of units that are receiving payments for their environmental attributes through other programs or that are recovering their capital or operating costs through regulated rates. This would have ensured that the IPA was not double paying – or more to the point – ensured that the units would never be allowed to double dip. Only if non-emitting units were uncompensated by Illinois or another state would the IPA consider the value of avoided emissions when evaluating their bids. This proposal had the support of Ameren and Dynegy. However, we note that under the more recent FRAP proposal offered by Dynegy in SB 2250 (Clayborne/Rezin) this year, the ability of the IPA to select the resources that best meet the State's environmental goals was completely eliminated.

Although the FRAP provision itself was not included in the version of the legislation that was enacted by the General Assembly, the legislature embraced the same objective federal standard for determining the value to consumers of receiving electricity from a non-emitting source, including it in the section of FEJA establishing a zero emission standard. As the ICC considers potential solutions going forward, it must ensure that it does not take action that will lead to emissions increases in Illinois, and the FRAP proposal considered last year is one way to guard against that outcome. While the Whitepaper notes the competitive pressures facing emitting resources in the State, those pressures should not obscure the need for emissions to be considered when selecting resources that will best serve customers in Illinois.

IV. Conclusion

Exelon appreciates the efforts by Governor Rauner and the Illinois Commerce Commission to launch this stakeholder process to inform potential future Illinois energy policy decisions regarding resource adequacy in MISO Zone 4. We reiterate that the details of any approach to resolve the flawed market construct in Central/Southern Illinois matter a great deal for customers and must be aligned with the state's environmental goals. Exelon is committed to engaging in this stakeholder process to produce the best outcome for the State of Illinois, as well as residents and businesses in Central/Southern Illinois. We are confident that there is a policy outcome that can be economically beneficial for customers while maintaining the State's commitment to ensuring a healthy environment for its families and businesses.